

TESTIMONY OF
PETER M. GIOIA
VICE PRESIDENT AND ECONOMIST
CONNECTICUT BUSINESS AND INDUSTRY ASSOCIATION
SUBMITTED TO THE
APPROPRIATIONS COMMITTEE
APRIL 5, 2011
LEGISLATIVE OFFICE BUILDING
STATE CAPITOL
HARTFORD, CONNECTICUT

Good day. My name is Pete Gioia. I am the vice president and economist for the Connecticut Business and Industry Association (CBIA). CBIA represents about 10,000 firms, which employ about 700,000 women and men in Connecticut. Our membership includes firms of all sizes and types, the vast majority of which are small businesses with fewer than 50 people.

CBIA would like to comment upon all the bills before the committee. We'll organize our commentary into bills concerning budget reform, COEAO, the spending cap, GAAP accounting, "Rainy Day" Fund and other bills.

Budget Reform

SB 229

CBIA welcomes efforts to better provide transparency in the state budget which this bill will do. The Governor has asked for the legislature to approve state pay raises. All areas of agreement should pass legislative review. We support the bill. However, we feel the bill only goes part of the way towards needed budget reforms. A better model in our opinion was the

Governor's SB 1000 An Act Reforming the State Budget Process which goes far beyond SB 229.

The Governor's bill would in addition:

- Allow the Governor to present a budget for all state agencies areas not just the executive agencies
- Provide expanded rescission authority
- Provide expanded transfer authority in the FAC process
- Bring other agencies into CORE-CT financial and HR systems
- Modify surplus disposition to take the most advantageous paying off of bonds or notes
- Adopt GAAP as called for in other bills before the committee.

CBIA believes the fiscal crisis demands real change. If the changes cited above had been in place before our recession perhaps we'd all be dealing with a fiscal problem a lot smaller than \$3.2 billion for SFY2011-12. We have supported all these measures since they were proposed in the Governor's Recommended budget and we ask that your modify SB 229 to include them and pass the modified bill.

COEAO

SB 1125

While CBIA supports the intent of this bill we feel the time for plans or study on this commission's work has passed and it's time to IMPLEMENT their recommendations. A vehicle exists to do this, GAE's SB 1059 which calls for just that. The legislature needs to achieve every dollar of savings proposed by the Commission on Enhancing Agency Outcomes now. GAE testimony is **attached**.

Spending Cap

SB 4, SB 189, SB 191, SB 573. HB 5002, HB 5059, HB 5158, HB 5149, HB 5151 HB 5649, HB 5651, HB 5654, HB 5658, HB 5805, HB 5806, and HB 5810

These bills help clearly define the original intent of the cap and ask for implementation. Probably HB 5810 is the clearest and most useful vehicle among the many bills. We support having the General Assembly implementing the constitutional limit on state expenditures.

CBIA reminds the committee that spending reforms passed in 1991, including both the spending cap and biennial budgeting were part of a compromise that included adoption of a broad-based state personal income tax. In our minds and in the minds of our members the two items –spending reforms and tax changes – are unequivocally linked. Eighty-one percent of the electorate in 1992 voted for the state spending cap, an unprecedented call for prudent state spending. Our business membership overwhelmingly supported this spending cap. Businesses trust in state government is closely linked to the state government promise to keep spending in check to the growth in personal income. This is substantiated by several surveys of the business community

GAAP

SB 68, SB 180, HB5655, and HB 5811.

Generally Accepted Accounting Principles (GAAP) has been a concept before this body for the entire 20 plus years I have been with CBIA. While the public sector accounting involved in GAAP is fairly technical and arcane, what it wishes to achieve is fairly straightforward. GAAP seeks to present financial data on the state that is presented fairly and in conformity with widely accepted standards. It provides a clear picture of the financial condition of the state, without rolling bills from one year into the next and attributing revenues from an upcoming year into the

prior year. It provides a greater level of confidence to those rating the financial condition of the state. It increases transparency in the budget which is important for an informed citizenry.

Despite many years of budget surpluses, the state still only authorized conversion to GAAP beginning in the 2003-2005 biennium. While Public Act 93-402 required GAAP conversion Public Acts 95-178, 97-306, and 99-1 have authorized postponement. But, the accumulated deficit has not gone away. Because the state was unwilling to fully implement GAAP in times of surplus, it is more challenging to begin the effort today. CBIA was encouraged that Governor Malloy addressed GAAP in his new budget. CBIA believes the General Assembly should work with our new Governor and commit to a plan to address this problem. These bills can help start that process. In particular HB 5655 asks that a plan of implementation of GAAP be submitted to the committee.

SB 448

CBIA supports efforts at more realistic review regarding rates of return and other financial aspects of the state employee retirement system.

HB 5657

CBIA supports this bill. Reform of the state employee pension and OPEB system is long overdue. Numerous other states including neighbors like New York and Massachusetts are doing these reforms in earnest.

SB 1123

CBIA supports investigating and reforming the practice of employees “spiking” pensions through accumulated overtime and other means.

SB 452

CBIA has perennially supported municipal mandate reform. Any mandate needs careful cost benefit scrutiny and needs to demonstrate compelling need before being enacted.

HB 5117

CBIA recognizes the concerns raised by the bill but feels municipal aid properly remains part of an overall budget package. The legislature could well put the budget on a faster track in any year especially during short session years. We oppose this bill.

HB 5163

This would create better transparency in the budget and we support it.

HB 5803

CBIA supports this bill. The private sector has suffered enormously in this terrible recession and tepid recovery. It should be stated that a ‘normal’ rate of unemployment according to noted economists would be 5.5 %. We are a long way from reaching that. Every tax dollar unnecessarily spent drains monies from consumption or investment that could speed recovery.

SB 1121

It would be prudent to review state aid to municipalities as called for in the bill.

“Rainy Day” Fund bills: HB 5650, HB 6271, and SB 1124

CBIA has been a strong proponent of the budget reserve fund and supported the call to go to 10% from 5% fund levels. However, we are concerned that merely upping the percent again might be counterproductive. We think serious thought should be put into an increase to 15% and we do not support going to 30%. A better strategy is to support Governor Malloy’s call for expanded recession powers to better manage budget crises as they unfold than wait for a “rainy day” fix after the fact.

HB 6516

It would be wise for the committee to ask for real time information on state positions as provided by the bill.

Thank you for the opportunity to present this testimony.

Attachment: Testimony to GAE on SB 1059

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ATTACHMENT FOR APPROPRIATIONS APRIL 5, 2011

**TESTIMONY OF
PETER M. GIOIA
VICE PRESIDENT AND ECONOMIST
CONNECTICUT BUSINESS AND INDUSTRY ASSOCIATION
SUBMITTED TO THE
GOVERNMENT ADMINISTRATION AND ELECTIONS COMMITTEE
FEBRUARY 28, 2011
LEGISLATIVE OFFICE BUILDING
STATE CAPITOL
HARTFORD, CONNECTICUT**

Good day. My name is Pete Gioia. I am the economist for the Connecticut Business and Industry Association (CBIA). CBIA represents about 10,000 firms, which employ about 700,000 women and men in Connecticut. Our membership includes firms of all sizes and types, the vast majority of which are small businesses with fewer than 50 people.

CBIA strongly supports SB 1059 AN ACT IMPLEMENTING THE RECOMMENDATIONS OF THE COMMISSION ON ENHANCING AGENCY OUTCOMES with modifications to the economic development consolidation recommendation.

CBIA is very concerned that the tax increases proposed in the Governor's recommended budget are quite large and problematic for an economy in the early stages of recovery. Obviously, a \$1.5 billion tax increase takes money out of consumer pockets and from small business owners who pay personal income tax in lieu of corporate income tax. Coupled with this is renewed fear of economic obstacles with unrest in North Africa and the Middle East and shocks that are causing energy price spikes.

It is imperative that the General Assembly find ways to add to the Governor's spending reductions to reduce the tax burden. In addition, it's vital to continue efforts to set the stage for

long term savings even if immediate savings are not realized. If changes are not achieved now when we are in the midst of crisis then we will never achieve meaningful change.

CBIA feels the following areas of the bill have particular merit.

- The recommendation for the reduction in the span of control of managers to employees from 1-6 to 1-10 is needed. We further suggest that because the federal government span of control is 1-14 that there is call to review this and authorize OPM to go to the federal span of control if warranted.
- The establishment of a Lean Government Steering Committee and added efforts for LEAN in state agencies.
- The recommendations to continue deinstitutionalization of state residential facilities is important.
- Creating a Long Term Care Planning Committee to help accelerate rebalancing of long term care placements is an important long term budgetary adjustment mechanism.
- Adoption of a long term care rebalancing strategy is vitally needed.
- Call for pursuit of Medicaid waivers to reduce long term costs are important.
- Review of medical usage in state programs such as drugs is an important change called for.
- A coordinated effort to maximize federal reimbursements is a good recommendation.
- Efforts to improve e-government through employee payroll changes, e-filing changes and e-payment changes are good steps.
- Call for OPM to help agencies strategize and institute changes to save energy are important.

We do have one concern and that is the call for mergers in economic development that appear to go further than the Governor's recommended changes. We hope the committee

discusses this with OPM and has a solution that allows sufficient independence for CII and CDA to effectively do their jobs.

Given the herculean budget challenges the state faces the General Assembly ought to act to help be part of the budget cut solution with changes like you have proposed. This bill will help make for better, more effective and efficient government. That will not only help out now it will help to defuse potential future deficiency problems.

Thank you for the opportunity to present this testimony.

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